

Audited Financial Statements  
and Other Financial Information

MBS International  
Airport Commission

*Years ended December 31, 2005 and 2004  
with Report of Independent Auditors*

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>MBS INTERNATIONAL AIRPORT COMMISSION</b>	County <b>SAGINAW</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>2/17/06</b>	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

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DEPT. OF TREASURY

**MAR 14 2006**

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

**LOCAL AUDIT & FINANCE DIV.**

You must check the applicable box for each item below.

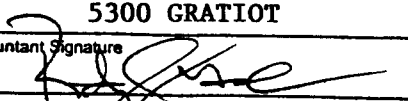
- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  
**N/A**
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.  
**N/A**
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.  
**N/A**
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

## PASSENGER FACILITY CHARGE PROGRAM

**X**

Certified Public Accountant (Firm Name) <b>ANDREWS HOOPER &amp; PAVLIK PLC</b>			
Street Address <b>5300 GRATIOT</b>	City <b>SAGINAW</b>	State <b>MI</b>	ZIP <b>48638</b>
Accountant Signature 		Date <b>3-9-06</b>	

# MBS International Airport Commission

## Audited Financial Statements and Other Financial Information

Years ended December 31, 2005 and 2004

### Contents

#### Audited Financial Statements

Report of Independent Auditors.....	1
Management's Discussion and Analysis.....	3
Statements of Net Assets.....	7
Statements of Revenues, Expenses and Changes in Net Assets .....	8
Statements of Cash Flows .....	9
Notes to Financial Statements.....	10

#### Other Financial Information

Report of Independent Auditors on Other Financial Information.....	18
Details of Operating Revenues.....	19
Details of Operating Expenses .....	20



**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

**Report of Independent Auditors**

Board of Commissioners  
MBS International Airport Commission

We have audited the accompanying statements of net assets of MBS International Airport Commission (Commission) as of December 31, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MBS International Airport Commission as of December 31, 2005 and 2004, and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. The supplementary information is the responsibility of the Commission's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2006 on our consideration of MBS International Airport Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Andrews Hooper & Pavlik P.L.C.*

Saginaw, Michigan  
February 17, 2006

# MBS International Airport Commission

## Management's Discussion and Analysis

### INTRODUCTION

This section of the MBS International Airport Commission (Commission or MBS) annual audit presents an analysis of the Commission's financial performance during the fiscal year ended December 31, 2005. This information is presented in conjunction with the audited basic financial statements, which follow. The annual report consists of the following three parts: Management's Discussion and Analysis (MD&A), Basic Financial Statements and other Supplementary Information. The financial statements include notes which explain in detail some of the information included in the basic financial statements. The information contained in this MD&A should be considered in conjunction with the information contained in the Commission's financial statements.

### AIRPORT ACTIVITY HIGHLIGHTS

The airline industry in general continues to suffer economically. Airline losses and bankruptcies continue to dominate the industry news. During 2005, Delta Airlines and Northwest Airlines both filed for bankruptcy while low-cost carrier Independence Air filed and then eventually closed down their operation. The biggest impact to the industry in 2005 was the cost of fuel. With oil hovering near \$70 per barrel, airlines could not make money. While United Airlines emerged from bankruptcy protection in early 2006, their future remains uncertain among sale and merger discussions. Obviously, the Northwest bankruptcy had the greatest impact on the overall financial picture for MBS.

MBS passenger traffic in 2005 was 408,546 total passengers compared to 424,758 in 2004. Several sources were referenced prior to preparing the 2005 budget, including FAA traffic forecasts, local business leaders, local travel professionals, state aeronautics officials, and other airport managers. With this information in hand, the estimate for 2005 passenger traffic was to remain consistent with our numbers from 2004. A close look at the figures shows that through the first three quarters of 2005, our forecast was fairly accurate. When Northwest Airlines filed for bankruptcy in mid-September, they began a series of system-wide service cuts which were felt throughout the Midwest including at MBS. For the months of September, October, November, and December, Northwest passenger traffic at MBS was down an average of 17% per month. These decreases represented a total decline of over 19,200 passengers. United Express finished 2005 with a 5.4% increase in passenger traffic compared to 2004. This demonstrates there is still a strong demand for seats into and out of the market.

### REQUIRED FINANCIAL STATEMENTS

The financial statements of the Commission conform to accounting principles which are generally accepted in the United States of America. The Statements of Net Assets includes information on the Commission's assets and liabilities with the difference between the two reported as net assets. The Statements of Revenues, Expenses and Changes in Net Assets identify the Commission's revenues and expenses for the fiscal years ended December 31, 2005 and 2004.

## MBS International Airport Commission

### Management's Discussion and Analysis (continued)

#### REVENUES

For fiscal year ending December 31, 2005, revenues were \$2,735,154 which is consistent with 2004 of \$2,761,899.

In general, airfield revenues held steady in 2005 compared to 2004. Landing fee revenues decreased by approximately 10%. This was due to the cuts in service by Northwest Airlines, which included less operations and some downsizing of DC-9 aircraft to regional jet aircraft.

Hangar area revenue totaled \$153,884 in 2005 which was within 1% of 2004.

Total concession fees for 2005 were \$1,321,108. For the most part, car rental revenue and parking lot revenue held steady with 2004.

#### EXPENSES

Total operating expenses for 2005 ended at \$2,993,746, which was 8.2% higher than 2004.

Salaries, wages and benefits were \$1,719,880 in 2005, an increase of approximately 6.1% from 2004. Several factors led to this increase including the addition of one staff position in the fire department, pension benefit increases approved in the union contract and the continued cost increases of health insurance benefits.

Operating expenses other than salaries, wages and benefits for 2005 were \$1,273,866 which was an increase of 11% from 2004. Several factors led to this increase with the first being energy costs. These increases were directly related to 25% of the operating cost increase. There was also an \$80,246 increase in the marketing and public relations budget for 2005. This alone accounted for nearly 67% of the cost increase. Efforts were made throughout the year to keep costs in line.

#### THE AIRPORT AS A WHOLE

For the fiscal year ended December 31, 2005, current assets totaled \$18,777,548, which is 1.3% higher than the \$18,535,884 for 2004. The largest increase is for cash and cash equivalents, which rose from \$18,044,346 in 2004 to \$18,399,555. The increase is due in part to the rise in interest rates. Total assets for year end equaled \$42,145,334.

# MBS International Airport Commission

## Management's Discussion and Analysis (continued)

Below is a summary chart of net assets.

	December 31	
	2005	2004
<b>Assets</b>		
Cash and cash equivalents	\$19,437,504	\$18,545,196
Other assets	377,993	491,538
Capital assets	22,329,837	23,511,227
Total assets	<u>\$42,145,334</u>	<u>\$42,547,961</u>
<b>Liabilities</b>		
Current liabilities	\$ 285,012	\$ 223,355
Long-term liabilities	1,336,463	1,243,647
Total liabilities	<u>\$ 1,621,475</u>	<u>\$ 1,467,002</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	\$22,329,837	\$23,511,227
Restricted	1,037,949	500,850
Unrestricted	17,156,073	17,068,882
Total net assets	<u>\$40,523,859</u>	<u>\$41,080,959</u>

Below is a summary chart of capital assets.

	December 31	
	2005	2004
<b>Capital assets</b>		
Land and land improvements	\$ 7,302,491	\$ 7,113,954
Buildings	15,163,272	15,040,642
Runways and taxiways	27,875,586	27,873,472
Equipment	5,877,846	5,142,327
Construction-in-progress	754,644	1,199,384
Total	<u>56,973,839</u>	<u>56,369,779</u>
Accumulated depreciation	34,644,002	32,858,552
Total capital assets	<u>\$22,329,837</u>	<u>\$23,511,227</u>



# MBS International Airport Commission

## Management's Discussion and Analysis (continued)

Below is a summary chart of revenues, expenses and changes in net assets for the years ended December 31.

	December 31	
	2005	2004
Total operating revenues	\$ 2,735,154	\$ 2,761,899
Total operating expenses	2,993,746	2,767,363
Operating loss before depreciation and postretirement health benefit expense	(258,592)	(5,464)
Depreciation	1,984,813	1,995,068
Postretirement health benefit expense	92,796	58,826
Loss from operations	(2,336,201)	(2,059,358)
<b>Nonoperating revenues</b>		
Interest income	522,967	214,080
Passenger facility charges	539,925	552,233
Capital contributions in Federal Aid Projects	716,209	981,771
Decrease in net assets	(557,100)	(311,274)
Net assets at beginning of year	41,080,959	41,392,233
Net assets at end of year	\$40,523,859	\$41,080,959

### FUTURE OUTLOOK

Although 2005 held steady for most of the year, the events in the fourth quarter, continued rising fuel costs and the Northwest bankruptcy had a dramatic impact on MBS passenger traffic. Monitoring the ongoing situation at Northwest will be a top priority for 2006. Northwest will continue to cut costs while trying to avoid any potential labor issues.

# MBS International Airport Commission

## Statements of Net Assets

	December 31	
	2005	2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$18,399,554	\$18,044,346
Accounts receivable	299,140	247,992
Inventory	56,701	52,866
Construction-in-progress receivable	22,152	190,680
Total current assets	18,777,547	18,535,884
Capital assets:		
Land and land improvements	7,302,491	7,113,954
Buildings	15,163,272	15,040,642
Runways and taxiways	27,875,586	27,873,472
Equipment	5,877,846	5,142,327
Construction-in-progress	754,644	1,199,384
	56,973,839	56,369,779
Less accumulated depreciation	34,644,002	32,858,552
Total capital assets	22,329,837	23,511,227
Restricted cash	1,037,950	500,850
Total assets	\$42,145,334	\$42,547,961
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 134,148	\$ 75,972
Deferred revenue	48,904	47,705
Accrued expenses and other current liabilities	101,960	99,678
Total current liabilities	285,012	223,355
Postretirement health benefits	1,336,463	1,243,647
Net assets:		
Invested in capital assets, net of related debt	22,329,837	23,511,227
Restricted	1,037,949	500,850
Unrestricted	17,156,073	17,068,882
Total net assets	40,523,859	41,080,959
Total liabilities and net assets	\$42,145,334	\$42,547,961

See accompanying notes.

# MBS International Airport Commission

## Statements of Revenues, Expenses and Changes in Net Assets

	<b>Year ended December 31</b>	
	<b>2005</b>	<b>2004</b>
<b>Operating revenues</b>		
Landing fees	\$ 370,665	\$ 412,921
Concession fees	1,321,108	1,322,563
Rentals	804,243	787,188
Fuel flowage fees	134,464	134,153
Other	104,674	105,074
Total operating revenues	2,735,154	2,761,899
<b>Operating expenses</b>		
Salaries, wages and benefits	1,719,880	1,619,811
Utilities	272,200	256,227
Maintenance and repairs	69,802	85,535
Insurance	129,460	132,832
Security police	267,168	238,241
Other	535,236	434,717
Total operating expenses	2,993,746	2,767,363
Operating loss before depreciation and postretirement health benefit expense	(258,592)	(5,464)
Depreciation	1,984,813	1,995,068
Postretirement health benefit expense	92,796	58,826
Loss from operations	(2,336,201)	(2,059,358)
<b>Nonoperating revenues</b>		
Interest income	522,967	214,080
Passenger facility charges	539,925	552,233
Capital contributions in Federal Aid Projects	716,209	981,771
Decrease in net assets	(557,100)	(311,274)
Net assets at beginning of year	41,080,959	41,392,233
Net assets at end of year	\$40,523,859	\$41,080,959

*See accompanying notes.*

# MBS International Airport Commission

## Statements of Cash Flows

	Year ended December 31	
	2005	2004
<b>Cash flows from operating activities</b>		
Cash received from providing services	\$ 2,684,395	\$ 2,759,999
Cash payments to suppliers	(1,858,336)	(1,738,264)
Cash payments to employees	(1,078,767)	(1,020,068)
Net cash provided (used) by operating activities	(252,708)	1,667
<b>Cash flows from capital and related financing activities</b>		
Passenger facility charges	539,925	552,233
Purchases of capital assets, excluding additions acquired through capital grants of \$716,209 in 2005 and \$981,771 in 2004 and non-cash activities	(108,895)	(1,000,391)
Proceeds from capital grants reimbursement	190,209	—
Proceeds from sale of capital assets	810	1,053
Net cash provided (used) by capital and related financing activities	622,049	(447,105)
<b>Cash flows from investing activities</b>		
Interest received	522,967	214,080
Net increase (decrease) in cash and cash equivalents	892,308	(231,358)
Cash and cash equivalents at beginning of year	18,545,196	18,776,554
Cash and cash equivalents at end of year	\$19,437,504	\$18,545,196
<b>Reconciliation of loss from operations before nonoperating revenues to net cash provided by operating activities</b>		
Loss from operations	\$ (2,336,201)	\$(2,059,358)
Adjustments to reconcile loss from operations to net cash provided (used) by operating activities:		
Depreciation	1,984,813	1,995,068
(Gain) loss on sale of capital assets	(810)	2,623
Postretirement health benefits	92,816	38,653
Changes in operating assets and liabilities:		
Accounts receivable	(51,148)	(5,696)
Inventory	(3,835)	7,518
Accounts payable	58,176	15,458
Deferred revenue	1,199	1,173
Accrued expenses and other current liabilities	2,282	6,228
Net cash provided (used) by operating activities	\$ (252,708)	\$ 1,667
<b>Non-cash transactions</b>		
Reclassification of Jetway Replacement Fund	—	\$ 511,599

See accompanying notes.

# MBS International Airport Commission

## Notes to Financial Statements

December 31, 2005

### 1. Organization

The MBS International Airport Commission (Commission) was organized on August 18, 1941 by the cities of Midland, Bay City and Saginaw to operate a municipal airport under Act 344, Public Acts of 1939, as amended. On July 21, 1961, all interests of the City of Bay City in the Airport were transferred to Bay County. On October 20, 1994, a resolution was enacted by the Commission to officially change the name of the Airport from Tri-City International Airport to MBS International Airport (Airport).

The governing board of the Commission is appointed by the respective municipalities. Each municipality appoints three members to the Commission and each serves a term in accordance with the terms of the municipality. The Commission controls the employment of the Airport Manager, who is responsible for overseeing the day-to-day operations of the Airport.

### 2. Significant Accounting Policies

#### Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Commission follows GASB guidance as applicable to enterprise funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

#### Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, restricted cash, interest and non-interest bearing deposits, and short-term investments with an original maturity of three months or less.

Cash and cash equivalents total \$19,437,504. Of this amount, approximately \$14,300,000 is in the Master Plan Projects Fund, \$2,000,000 is in the Emergency Capital Fund, \$2,000,000 is in other reserved funds, \$1,040,000 is in the Passenger Facility Charges Fund and \$100,000 is in other operating funds.

#### Accounts Receivable

Accounts receivable are stated at the outstanding principal balance adjusted for any charge-offs. Management closely monitors outstanding balances and writes-off receivables when the receivable is deemed uncollectible. Management believes any realization losses on the outstanding balance at December 31, 2005 would be immaterial; therefore, no allowance for uncollectible accounts is recorded.

# MBS International Airport Commission

## Notes to Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Inventory

Inventory, which consists principally of various supplies, is valued at the lower of cost or market on the first-in, first-out method.

#### Capital assets

Capital assets are stated at cost and are depreciated over their estimated lives by the straight-line method.

#### Capital Contributions

Certain expenditures for Airport capital improvements are significantly funded through the Airport Improvement Program of the Federal Aviation Administration (FAA) with certain matching funds provided by the State of Michigan and the Commission, or from various state or federal grant programs. Capital funding provided under government grants is considered earned as the related allowable expenditures are incurred. Capital contributions arising from federal and state funding of Airport capital projects are classified as nonoperating revenue. Construction-in-progress at December 31, 2005 and 2004 included various projects funded primarily through federal and state contributions.

#### Revenue Recognition

Revenue, other than passenger facility charge revenue, is recognized on the accrual basis. Passenger facility charge revenue is recorded when received since the Airport has no control over the timing or amount of receipts.

#### Retirement Plan

The Commission has a defined benefit pension plan covering substantially all employees. The plan is administered under the State of Michigan Municipal Employees' Retirement System (MERS). The Commission's policy is to recognize pension costs based on actuarially determined required contributions.

#### Postretirement Health Benefits

The Commission provides certain health care insurance benefits for retirees; substantially all employees may become eligible for these benefits. The Commission estimates these benefits by calculating the amounts that the Commission may pay to vested and retired employees taking into consideration current insurance costs, adjustments to insurance costs at age 65 and a life expectancy of 76 years old. The Commission has not had a recent actuarial valuation to determine what the required liability may be under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which will be applicable for the year ended December 31, 2009.

**MBS International Airport Commission**  
**Notes to Financial Statements (continued)**

**2. Significant Accounting Policies (continued)**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. A significant estimate at December 31, 2005 relates to accounts receivable where approximately 30% of accounts receivable is from two airlines that have filed for bankruptcy. Although management believes these amounts are collectible and that it is the intent of these airlines to pay, payment is not guaranteed. Therefore, a change in circumstances could result in actual results being different from the allowance estimate.

**3. Cash and Cash Equivalents**

Certain funds not required in day-to-day operations are invested in cash equivalent products. Cash balances totaling \$19,444,508 were on deposit (\$18,240,467 in interest-bearing accounts) in well capitalized, sound financial institutions which are covered by federal depository insurance of \$100,000 for each depositor. At December 31, 2005, \$19,144,508 of such deposits are uninsured and uncollateralized; therefore, subjecting the Airport to custodian credit risk. Custodian credit risk is the risk that in the event of a bank failure, the Airport's deposits may not be returned. The Airport does not believe that this deposit concentration represents any undue custodial credit risk.

At December 31, 2005, the Commission had \$1,037,950 in restricted cash related to Passenger Facility Charge (PFC) revenue in excess of expenses. See Note 10 for further information.

**4. Capital Assets**

Capital asset activity consists of the following:

	<b>Balance January 1, 2004</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2005</b>
Capital assets not being depreciated:				
Land	\$ 4,062,458	\$ 188,537		\$ 4,250,995
Capital assets being depreciated:				
Land improvements	3,051,496			3,051,496
Buildings	15,040,642	122,630		15,163,272
Runways and taxiways	27,873,472	2,114		27,875,586
Equipment	5,142,327	934,882	\$ 199,363	5,877,846
Construction-in-progress	1,199,384	737,101	1,181,841	754,644
Subtotal	52,307,321	1,796,727	1,381,204	52,722,844
Less accumulated depreciation for:				
Land improvements	2,101,801	117,406		2,219,207
Buildings	8,178,379	641,418		8,819,797
Runways and taxiways	19,099,973	883,762		19,983,735
Equipment	3,452,825	349,224	199,363	3,602,686
Construction-in-progress	25,574	110,238	117,235	18,577
Subtotal	32,858,552	2,102,048	316,598	34,644,002
Net capital assets being depreciated	19,448,769	(305,321)	1,064,606	18,078,842
Total capital assets, net	\$23,511,227	\$ (116,784)	\$1,064,606	\$22,329,837

# MBS International Airport Commission

## Notes to Financial Statements (continued)

### 4. Capital Assets (continued)

	Balance January 1, 2004	Increases	Decreases	Balance December 31, 2004
Capital assets not being depreciated:				
Land	\$ 4,062,458			\$ 4,062,458
Capital assets being depreciated:				
Land improvements	2,784,002	\$ 267,494		3,051,496
Buildings	14,312,914	751,005	\$ 23,277	15,040,642
Runways and taxiways	26,548,731	1,324,741		27,873,472
Equipment	4,196,057	1,286,422	340,152	5,142,327
Construction-in-progress	2,842,315	1,911,191	3,554,122	1,199,384
Subtotal	50,684,019	5,540,853	3,917,551	52,307,321
Less accumulated depreciation for:				
Land improvements	1,964,932	136,869		2,101,801
Buildings	7,527,233	670,747	19,601	8,178,379
Runways and taxiways	17,818,786	1,281,187		19,099,973
Equipment	3,589,245	203,732	340,152	3,452,825
Construction-in-progress	323,042	244,236	541,704	25,574
Subtotal	31,223,238	2,536,771	901,457	32,858,552
Net capital assets being depreciated	19,460,781	3,004,082	3,016,094	19,448,769
Total capital assets, net	\$23,523,239	\$3,004,082	\$3,016,094	\$23,511,227

### 5. Operating Revenues

The operating revenues of the Commission consist primarily of landing fees, rentals and concession fees. Operating revenue, by customer, for the year ended December 31, 2005 is approximately as follows:

Northwest Airlines	\$ 948,000
SkyWest Airlines	233,000
Avflight	176,000
Aerodynamics	43,000
Pinnacle	38,000
APCOA, Inc. (parking lot concessionaire)	736,000
Car rental companies	554,000
All other customers	7,000
	<u>\$2,735,000</u>

Agreements for such fees are generally renegotiable after periods of one to ten years.

Revenue from rental of terminal facilities to commercial airlines was approximately \$486,000 for the year ended December 31, 2005 and \$479,000 for the year ended December 31, 2004. Landing fee revenue from these airlines was approximately \$371,000 in 2005 and \$413,000 in 2004 and is covered under agreements which expire September 30, 2008.



# MBS International Airport Commission

## Notes to Financial Statements (continued)

### 5. Operating Revenues (continued)

Minimum future revenue from non-cancelable rental and concession agreements in effect at December 31, 2005 is as follows:

<u>Year</u>	<u>Amount</u>
2006	\$1,024,000
2007	937,000
2008	741,000
2009	280,000
2010	113,000
Thereafter	76,000
	<u>\$3,171,000</u>

### 6. Retirement Benefits

*Plan Description* – The Commission participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer, state-wide, public employee pension plan, created under Act 135 of the Public Acts of 1945. The plan operates under Public Act 220 of 1996 and the MERS Plan Document as revised. The Commission participates in the defined benefit program of the MERS plan. MERS issues an annual financial report, which includes financial statements and required supplementary information. The report may be obtained at Municipal Employees' Retirement System of Michigan, 477 N. Canal Rd., Lansing, Michigan 48917.

The plan covers all full-time employees. Participating employees consisted of 27 active participants, 13 retirees and beneficiaries, and 1 vested former employee as of December 31, 2004, the date of the most recent actuarial valuation. Additional information concerning the retirement plan as of December 31, 2004 follows:

Normal Retirement: In general, age 60 with 10 years or more of credited service. Non-union participants also have the option of age 55 with 25 years or more of credited service. The benefit is two and a quarter percent of the member's three-year final average compensation for each year of service. Union participants have the option of age 55 with 25 years or more of credited service. The benefit is two percent of the member's five year final average compensation for each year of service. Normal retirement for the Airport Manager is 25 years of service and out.

*Funding Policy* – The Commission establishes benefit provisions. Subject to union contracts, the Commission has the authority to amend the benefit provisions within the options allowed by MERS. All employee contributions are refundable if the employee elects to terminate vesting rights or is not vested at the date of termination of employment. Effective in 1989, the plan no longer requires employee contributions. The Commission's funding policy provides for monthly (quarterly in 1997 and prior years) contributions to MERS. The contributions are actuarially determined, expressed as percentages of annual covered payroll, and designed to accumulate sufficient assets to pay benefits when due. The MERS Retirement Board establishes the funding methods.

# MBS International Airport Commission

## Notes to Financial Statements (continued)

### 6. Retirement Benefits (continued)

*Annual Pension Cost* – For 2005, the Commission's actual pension contributions of \$158,971 exceeded the annual pension cost of \$137,328 thereby decreasing the net pension obligation by \$21,643. The Commission did not have a net pension obligation at transition, determined in accordance with GASB Statement No. 27, as their actual contributions made equaled the actuarially determined required contributions for each year during the "look-back period."

The actuarial valuation is performed as of the last day of each fiscal year for the plan and determines contribution requirements for the second following fiscal year. The 2005 contributions were based on the December 31, 2003 valuation. The normal cost and actuarial accrued liability are determined using the entry age normal cost method. Unfunded actuarial accrued liabilities are being amortized as a percent of payroll over a period of 30 years. Significant actuarial assumptions used in determining the pension benefit obligation included (i) a rate of return on the investment of present and future assets of 8.0% per year compounded annually, (ii) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (iii) additional projected salary increases ranging from 0.0% to 8.4% per year, depending on age, attributable to seniority/merit, and (iv) the assumption that benefits will increase 2.5% annually after retirement. Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the pension benefit obligation. The actuarial value of assets is determined on the basis of a valuation method that assumes the funds earn the expected rate of return (8.0%) and includes an adjustment to reflect market value.

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)	Cumulative NPO
12/31/05	\$137,328	115.8%	\$(21,643)	\$ 6,268
12/31/04	136,392	103.2	(4,424)	27,911
12/31/03	93,324	117.7	(16,518)	32,335

*Health Insurance* – The Commission provides continued health insurance to eligible retirees and their spouses in the form of a Staff Plan and a Union Plan. During 2002, the Commission re-evaluated the liability by projecting the estimated health care benefits for those employees that have vested in the plan and those already retired. Management intends to re-evaluate the calculation annually and make the appropriate adjustment. Postretirement health benefit expense was \$92,796 for 2005 and \$58,826 for 2004.

# MBS International Airport Commission

## Notes to Financial Statements (continued)

### 7. Required Supplemental Information on Retirement Plan

The following table shows the required three-year historical trend information relating to the funding progress of the Commission's retirement plan.

Actuarial Valuation Date December 31	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded (Overfunded) AAL (UAAL) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Covered Payroll	UAAL as a Percent of Covered Payroll (3) / (5)
2002	\$4,432,017	\$5,189,175	\$ 757,158	85	\$1,008,583	75%
2003	4,690,145	5,398,839	708,694	87	1,034,032	69
2004	4,865,622	6,030,522	1,164,900	81	1,037,872	112

### 8. Deferred Compensation Plan

The Commission established a deferred compensation plan to provide retirement income and other deferred benefits to its employees in accordance with the provisions of Section 457 of the Internal Revenue Code of 1986, as amended. Contributions to the plan totaled \$61,341 in 2005 and \$56,690 in 2004.

### 9. Construction-in-Progress Commitments

The Commission is participating in several capital projects whereby the Federal and State governments have agreed to pay for a portion of the project with the remainder to be paid by the Commission. As of December 31, 2005, the Commission has paid more than its portion of the outstanding commitments to date on these projects and has recorded a receivable for this amount.

### 10. Passenger Facility Charges

Effective June 28, 1991, Federal Aviation Regulation 158 established a Passenger Facility Program. Under this regulation, airports may be authorized to impose an airport Passenger Facility Charge (PFC) of \$1, \$2, or \$3 per enplaned passenger at a commercial service airport it controls. The proceeds from such PFCs are to be used to finance eligible airport-related projects that preserve or enhance safety, capacity, or security of the national air transportation system, reduce noise from an airport that is part of such system, or furnish opportunities for enhanced competition between or among air carriers.

The rule sets forth procedures for public agency applications for authority to impose PFCs for Federal Aviation Administration (FAA) processing of such applications, for collection, handling, and remittance of PFCs by air carriers, for recordkeeping and auditing by air carriers and public agencies, for terminating PFC authority, and for reducing Federal grant funds apportioned to large and medium hub airports imposing a PFC.

# MBS International Airport Commission

## Notes to Financial Statements (continued)

### 10. Passenger Facility Charges (continued)

The FAA approved MBS International Airport's first Passenger Facility Charge application in the amount of \$1,400,000 (amended to \$874,682) to reimburse the local share of Airport Improvement Projects (AIP) which occurred during 1991 through 1997. This application was completed in 1999. The FAA also approved the Airport's second PFC application in the amount of \$812,050 (amended to \$438,614) which was completed in 2002. The third PFC application in the amount of \$4,234,047, the fourth application in the amount of \$1,999,052, and the fifth application in the amount of \$1,378,794 to reimburse the local share of subsequent Airport Improvement Projects were also approved by the FAA. These applications were approved for the collection of \$3 per enplaned passenger, of which the airlines retain \$.08 on each \$3 charge as a collection fee and forward the remaining \$2.92 to the Airport. During 2004, the collection fee the airlines can retain increased to \$.11, with the remaining \$2.89 being forwarded to the Airport. The Airport received \$539,925 (including \$22,145 of interest income on excess PFC revenue) in PFC revenue in 2005 and \$552,232 (including \$9,428 of interest income on excess PFC revenue) in 2004. The Airport has received \$1,037,950 as of December 31, 2005 and \$500,850 as of December 31, 2004 in PFC revenues in excess of eligible expenditures. This amount has been classified as restricted cash and net assets and maintained in a separate cash account.



**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

**Report of Independent Auditors  
on Other Financial Information**

Board of Commissioners  
MBS International Airport Commission

Our report on our audits of the financial statements of MBS International Airport Commission appears on page one. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying detail of operating revenues and detail of operating expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, such information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Andrews Hooper & Pavlik P.L.C.*

Saginaw, Michigan  
February 17, 2006

# MBS International Airport Commission

## Details of Operating Revenues

	Year ended December	
	2005	2004
<b>Airfield area</b>		
Landing fees	\$ 370,665	\$ 412,921
Fuel flowage fees	134,464	134,153
Farm land rental	39,965	39,965
Miscellaneous	—	2,105
Total airfield area	545,094	589,144
<b>Hangar area</b>		
Fixed base operators' concession fees	4,035	7,151
Ground rental:		
Hangar	54,257	52,676
Non-commercial	48,345	47,560
Commercial	47,247	47,047
Total ground rental	149,849	147,283
Total hangar area	153,884	154,434
<b>Terminal area</b>		
Rentals:		
Airline	485,937	478,829
Car rental companies	39,232	38,463
Travel agent	—	992
Other	68,416	68,264
Total rentals	593,585	586,548
Concession fees:		
Car rental companies	491,311	490,661
Parking lot	734,934	735,961
Restaurant, gift shop and bar	46,468	45,950
Advertising	41,360	39,340
Limousine service	3,000	3,500
Total concession fees	1,317,073	1,315,412
Gain (loss) on sale of capital assets	810	(2,623)
Other revenue	103,864	105,592
Total terminal area	2,015,332	2,004,929
<b>Administration building</b>		
Office space rental	20,844	13,392
	<b>\$2,735,154</b>	<b>\$2,761,899</b>

# MBS International Airport Commission

## Details of Operating Expenses

	Year ended December	
	2005	2004
<b>Salaries, wages and benefits</b>		
Maintenance	\$ 459,779	\$ 431,969
Crash, fire and rescue	376,589	355,022
Administration	243,195	240,079
Payroll taxes and fringe benefits	640,317	592,741
Total salaries, wages and benefits	1,719,880	1,619,811
<b>Other operating expenses</b>		
Utilities	272,200	256,227
Maintenance and repairs	69,802	85,535
Insurance	129,460	132,832
Security police	267,168	238,241
Professional fees	64,075	50,947
Operating supplies	113,669	116,811
Custodial supplies	7,981	9,086
Equipment rental	4,205	4,277
Gasoline and oil	51,438	37,402
Travel	18,515	22,029
Telephone	12,616	11,269
Public relations	240,276	160,030
Shop tools and equipment	4,521	5,633
Dues and subscriptions	8,500	9,622
Uniforms	3,340	2,587
Landscaping	1,915	839
Janitorial services	4,185	4,185
Total other operating expenses	1,273,866	1,147,552
	<b>\$2,993,746</b>	<b>\$2,767,363</b>

Report on Passenger Facility  
Charges Collected and Expended

MBS International  
Airport Commission

*Year ended December 31, 2005*



# MBS International Airport Commission

## Report on Passenger Facility Charges Collected and Expended

Year ended December 31, 2005

### Contents

Independent Auditors' Report on the Supplementary Schedule of Passenger Facility Charges Collected and Expended.....	1
Schedule of Passenger Facility Charges Collected and Expended .....	2
Notes to Schedule.....	3
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	4
Independent Auditors' Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control Over Compliance in Accordance with <i>Passenger Facility Charge Audit Guide for Public Agencies</i> .....	5



**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

**Independent Auditors' Report on the Supplementary Schedule of  
Passenger Facility Charges Collected and Expended**

Board of Commissioners  
MBS International Airport Commission

We have audited the financial statements of MBS International Airport Commission (Commission), as of and for the year ended December 31, 2005, and have issued our report thereon dated February 17, 2006. These financial statements are the responsibility of MBS International Airport Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of MBS International Airport Commission taken as a whole. The accompanying Schedule of Passenger Facility Charges Collected and Expended for the year and each quarter within the year ended December 31, 2005, which is also the responsibility of management of the Commission, is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is not a required part of the financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2006 on our consideration of MBS International Airport Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Andrews Hooper & Pavlik P.L.C.*

Saginaw, Michigan  
February 17, 2006

MBS International Airport Commission

Schedule of Passenger Facility Charges Collected and Expended

Year ended December 31, 2005

	<u>PFC Receipts</u>	<u>Interest Earned</u>	<u>Expenditures</u>	<u>Unliquidated PFC Revenue (Expenditures in Excess of Receipts)</u>
Balance at January 1, 2005				\$ 500,850
First Quarter 2005	\$126,574	\$ 2,853	\$ (475)	<u>128,952</u>
Balance at March 31, 2005				629,802
Second Quarter 2005	150,121	4,316	—	<u>154,437</u>
Balance at June 30, 2005				784,239
Third Quarter 2005	123,356	6,269	—	<u>129,625</u>
Balance at September 30, 2005				913,864
Fourth Quarter 2005	<u>117,729</u>	<u>8,707</u>	<u>(2,350)</u>	<u>124,086</u>
Balance at December 31, 2005	<u><u>\$517,780</u></u>	<u><u>\$22,145</u></u>	<u><u>\$(2,825)</u></u>	<u><u>\$1,037,950</u></u>

*See accompanying notes.*

# MBS International Airport Commission

## Notes to Schedule

December 31, 2005

### **Note 1. Passenger Facility Charge Applications**

The Federal Aviation Administration approved MBS International Airport's (Airport) first Passenger Facility Charge (PFC) application to reimburse the local share of Airport Improvement Projects (AIPs) incurred principally in 1991 through 1997. The original application was approved for \$1,400,000. The final project related to this grant was completed during 1998. Due to changes in alternate sources of funding, the Airport did not expend the full amount noted in the original PFC application. The application was amended to reflect the actual expenditures once the State of Michigan Department of Transportation (the project administrator) closed the related Airport Improvement Project. This application was finalized during 1999 at \$874,682.

The Airport's second PFC application approved by the Federal Aviation Administration was in the amount of \$812,050. The final project related to this grant was completed in 2000. Due to changes in alternate sources of funding, the Airport did not expend the full amount noted in the second PFC application. This application was amended to reflect the actual expenditures once the project administrator closed the related Airport Improvement Project. This application was finalized during 2002 at \$438,614.

The Federal Aviation Administration approved the Airport's third PFC application in the amount of \$4,234,047, fourth PFC application in the amount of \$1,999,052, and fifth PFC application in the amount of \$1,378,794 to reimburse the local share of subsequent AIPs and other approved projects. These applications were approved for the collection of \$3 per enplaned passenger, of which the airlines retain \$.08 on each \$3 charge as a collection fee. During 2004, the collection fee the airlines may retain increased to \$.11 on each \$3 charge. The Airport began receiving Passenger Facility Charges (PFCs) in March 1997.

### **Note 2. Expenditures**

The expenditures shown included actual cash outlays of the Airport and the Airport's share of the costs incurred to date on the AIPs as reported by the administrator.



**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

Independent Auditors' Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

Board of Commissioners  
MBS International Airport Commission

We have audited the financial statements of MBS International Airport Commission (Commission) as of and for the year ended December 31, 2005, and have issued our report thereon dated February 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting Relative to the PFC Program

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might constitute material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the MBS International Airport Commission, management and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

*Andrews Hooper & Pavlik P.L.C.*

Saginaw, Michigan  
February 17, 2006



**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

**Independent Auditors' Report on Compliance with Requirements  
Applicable to the Passenger Facility Charge Program and on  
Internal Control Over Compliance in Accordance with  
*Passenger Facility Charge Audit Guide for Public Agencies***

Board of Commissioners  
MBS International Airport Commission

Compliance

We have audited the compliance of MBS International Airport Commission (Commission) with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, that are applicable to the Passenger Facility Charge (PFC) program for the year ended December 31, 2005. Compliance with the requirements of laws and regulations applicable to the PFC program is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Passenger Facility Charge Audit Guide for Public Agencies*. Those standards and the guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the PFC program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

In our opinion, MBS International Airport Commission complied, in all material respects, with the requirements referred to above that are applicable to the PFC program for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to the PFC program. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on the PFC program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the *Passenger Facility Charge Audit Guide for Public Agencies*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by errors or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the MBS International Airport Commission, management and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

*Andrews Hooper & Pavlik P.L.C.*

Saginaw, Michigan  
February 17, 2006